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**SECRETARY, BOARD OF
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

**IN THE MATTER OF THE REQUEST
FOR AGENCY ACTION OF STONE
ENERGY CORPORATION FOR AN
ORDER AUTHORIZING THE VENTING
OR FLARING OF GAS FROM THE
THREEMILE 12 - 7 WELL LOCATED IN
SECTION 12, TOWNSHIP 29 SOUTH,
RANGE 21 EAST, S.L.M., IN THE HATCH
POINT PROSPECT AREA OF SAN JUAN
COUNTY, UTAH**

**FINDINGS OF FACT,
CONCLUSIONS OF LAW,
AND ORDER**

**Docket No. 2011-08
Cause No. 166-04**

This cause came on regularly for hearing before the Board of Oil, Gas and Mining (the **“Board”**) on Wednesday, October 26, 2011, at 10:00 a.m., in the Hearing Room of the Utah Department of Natural Resources at 1594 West North Temple Street, in Salt Lake City, Utah.

The following Board members present and participating in the hearing were: Chairman James T. Jensen, Jake Y. Harouny, Ruland J. Gill, Jean Semborski, Kelly L. Payne, Chris D. Hansen, and Carl F. Kendell. Dustin Doucet, petroleum engineer, of the Division of Oil, Gas and Mining (the **“Division”**) participated in the hearing.

Phillip Wm. Lear of Lear & Lear L.L.P. appeared on behalf of Stone Energy Corporation (**“Stone”**), and Kent S. Davis and Kim J. Overcash appeared as witnesses for Stone.

Michael S. Johnson, Assistant Attorney General, represented the Board; and Steven F. Alder, Assistant Attorney General, represented the Division.

Michael L. Colthard, petroleum engineer, commented on behalf of the United States

Department of the Interior, Bureau of Land Management, Utah State Office and Moab Field Office, respectively.

NOW THEREFORE, the Board, having fully considered the testimony adduced and the exhibits received at the hearing, and being fully advised in the premises, unanimously makes and enters its Findings of Fact, Conclusions of Law, and Order, as follows:

FINDINGS OF FACT

1. In its Order entered May 25, 2011, the Board authorized Stone to flare associated gas from its Threemile #12-7 Well (the “**Well**”) and directed Stone to reappear within six months to report on additional data gathered through its operations in the Hatch Point Area and to seek additional flaring authority, as necessary, for the Well, or at such earlier time Stone sought flaring authority for gas produced from other wells in the Hatch Point Field.

2. The Board mailed notice of the hearing to interested parties on September 28, 2011, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on October 2, 2011, and in the *San Juan Record*, a newspaper of independent circulation in San Juan County, Utah, on October 5, 2011.

3. Since April 27, 2011, the date of the initial hearing in this matter, Stone perforated additional sections of the horizontal lateral, installed permanent surface facilities and production tubing, and produced the Well periodically during May through July 2011. Cumulative production to date is 16.9 thousand barrels of oil (“**MBO**”), 14.9 million cubic feet of gas (“**MMCF**”), and a trace of water. The Well has received a paying well determination and has qualified as a “well capable of producing in paying quantities” pursuant to the regulations of

the Bureau of Land Management (“BLM”) and the associated participating area for the Well is pending final approval by the BLM. The Well is a unit well within the Threemile Unit.

4. The estimated ultimate recoverable gas reserves are 465 million cubic feet (“MMCF”). Stone derived the estimated oil and gas reserves based upon production to date. The GOR is approximately 1,400 SCF to one barrel of oil. The projected initial production rate is 200 bbls/d of oil and 100 MCF/d of gas.

5. Since the April 27, 2011 hearing, Stone completed its La Sal #29-28 Well in the Hatch Point area during May 2011 in Sections 28 and 29 of Township 29 South, Range 23 East, S.L.M., as a horizontal well in the Cane Creek member of the Paradox formation. Stone drilled and completed that well as a unit well in the La Sal Unit, a federal exploratory unit operated by Stone. The La Sal Unit abuts the Threemile Unit to the east. That well produced periodically during the interim period. Cumulative production to date is 2.8 MBO, 2.7 MMCF/g, and no water. Production to date averages at or less than 1,800 MFC/month, and gas is currently being flared pursuant to the Boards Rules and Regulations in Utah Administrative Code R649-3-20.1.1 (2011).

6. Since the April 27, 2011 hearing, Stone has drilled its Threemile # 16-17 Well in the Hatch Point area in Sections 16 and 17 of Township 29 South, Range 23 East, S.L.M., as a horizontal well in the Cane Creek member of the Paradox formation. Stone drilled that well as a unit well in the Threemile Unit. The well is awaiting completion.

7. Gas reserves continue to represent less than four percent of the total value of production from the Well.

8. The discounted present value of oil and gas reserves, including the well and gas pipeline costs, is between negative \$ 14.4 Million and \$ 1 Million. The well cost is \$ 8.5 million and the gas pipeline cost is \$ 9.9 million. The average oil pricing for the six-month period since April 27, 2011, has decreased to \$95.48 / BO, less a \$10.50 / BO transportation deduction. The average gas pricing is \$6.33 / MCF which includes a 1.3 BTU thermal adjustment factor for a gross adjusted price of approximately \$5.00.

9. Possible conservation alternatives to flaring of associated gas from Cane Creek interval wells, namely, compressed natural gas (CNG), gas to liquids (GTL), gas to wire (electrical generation), gas injection, use on lease, and production to a pipeline continue to be technologically infeasible or render the Well sub-economic. They do not provide reasonable economic alternatives to gas flaring from the Well.

10. No alternative is economical as a conservation alternative to flaring for the Well; and the pipeline alternative would be economically feasible only with production from seven to eight wells in the Hatch Point Field.

11. There continues to be no natural gas pipeline to market gas produced from the Well. A gas pipeline would be the most technologically and economically feasible option, looking to the future. Under the pipeline alternative, Stone would either be required to construct a processing plant and connect to existing pipeline transportation systems lying approximately 15 miles east from the Well or to gather and transport gas to the Lisbon gas processing facility approximately 22 miles southeast of the Well along feasible right of ways.

12. Production to a natural gas pipeline most likely continues to be feasible and economically viable upon the successful completion of a total of eight additional wells,

assuming production characteristics similar to other Cane Creek wells. Stone's current projection for an online gas stream is 2014. Stone contemplates drilling four additional locations during 2012, subject to budget approval.

13. Stone cannot produce oil without producing the associated gas. Absent a market for the gas, the Well must be shut-in if gas is not flared. Stone projects lost revenues from production for the ensuing 12-month period to be \$6.2 Million (based upon a field price of \$98.00 per barrel), if the Board does not authorize continued flaring for the Well.

14. Assuming similar production parameters the La Sal #29-28 and Threemile #16-17 Wells could be attached to any future pipeline.

15. An order authorizing Stone to continue flaring its gas from the Well pending further analysis of data from the Well and from other wells Stone drilled in the Hatch Point Field will promote the public interest, increase ultimate recovery, prevent waste, and protect the correlative rights of all owners.

CONCLUSIONS OF LAW

16. The Board has jurisdiction of the parties and of the subject matter of the Request for Agency Action pursuant to Chapter 6 of Title 40 of the *Utah Code Annotated*.

17. The Division gave due and regular notice of the time, place, and purpose of the hearing to all interested parties as required by law and by the rules and regulations of the Board.

18. The Well is capable of producing gas in excess of the 1,800 MCF/month authorized under R649-3-20.1.1 without approval of the Board upon notice and hearing, and Board approval is required for continued gas flaring.

19. No marketing or conservation—oriented alternatives are feasible and economically viable to gas flaring in the Well.

20. Continuing the temporary order authorizing flaring of gas pending production results from the Stone's Threemile #16-17 and La Sal #29-28 Wells and/or additional test results upon completion of other segments of the lateral in the Threemile #12-7 Well will promote the public interest, increase ultimate recovery of oil and gas, prevent waste, and protect the correlative rights of all owners.

ORDER

IT IS THEREFORE ORDERED that in order to promote the public interest; to increase the ultimate recovery of the resource; to prevent physical waste of gas and associated hydrocarbons; and to protect the correlative rights of all owners:

- A. Stone's Request for continued temporary flaring of the Well is granted.
- B. Stone may continue flaring gas from the Well for a period of up to eight additional months from and after October 26, 2011, and shall reappear before the Board no later than the regularly scheduled hearing date on June 27, 2012, to report on additional data gathered through its operations and to seek additional flaring authority, as necessary, or at such earlier time as Stone seeks authorization to flare gas produced from other wells in the Hatch Point Field.
- C. The Division is to monitor the gas flare rates and production tests from the Stone's Threemile #16-17 and La Sal #29-28 Wells and/or additional test results upon completion of other segments in the Threemile #12-7 Well.
- D. The Board retains continuing jurisdiction of this matter and the flaring authorization.
- E. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63G-4-204 through -207, and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641 (2011).
- F. These Findings of Fact, Conclusions of Law, and Order ("**Order**") are based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision,

as required by the Utah Administrative Procedures Act, Utah Code Ann. § 63G-4-208 (2008), and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641-109 (2011); and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

G. Notice of Right of Judicial Review by the Supreme Court of the State of Utah. The Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this Order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this Order is entered. Utah Code Ann. § 63G-4-208(f) (2008).

H. Notice of Right to Petition for Reconsideration. As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this proceeding that they may apply for reconsideration of this Order. Utah Code Ann. § 63G-4-208(1)(e) (2008). The Utah Administrative Procedures Act provides:

(1) (a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63G-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Utah Code Ann. § 63G-4-302 (2008).

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled “Rehearing and Modification of Existing Orders” state:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month.

Utah Admin. Code R641–110–100 (2011).

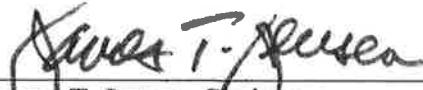
The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

I. The Board retains exclusive and continuing jurisdiction of all matters covered by this Order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

J. The Chairman’s signature on a facsimile copy of this Order shall be deemed the equivalent of a signed original for all purposes.

DATED this 19th day of January, 2012.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

A handwritten signature in dark ink, appearing to read "James T. Jensen", written over a horizontal line.

James T. Jensen, Chairman
1594 West North Temple, Suite 1210
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CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER, for Docket No. 2011-008, Cause No. 166-04 to be mailed with postage prepaid, this 19th day of January, 2012, to the following:

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